



PRESS RELEASE

9TH AUGUST, 2004

The Central Bank of The Bahamas has today lifted the restriction on domestic banks' Bahamian dollar lending, that has been in effect since 20th September, 2001. This decision is based on the improved outlook for the Bahamian economy, including tourism and foreign investments, which going forward, are expected to provide stronger support for domestic consumption and imports.

The Central Bank will continue to monitor domestic economic trends, to ensure that credit expansion is consistent with economic growth.

In the future, the Bank will place greater emphasis on achieving minimum levels of external reserves relative to the deposit liabilities of the banking system, and adjust its credit policies as appropriate to accomplish this.

Towards this end, lending institutions are expected to pay particular attention to the creditworthiness of borrowers. New credit should be provided only after careful review of customers' existing levels of indebtedness, their ability to repay increased obligations, and to the extent of borrowers' ability to provide direct equity contributions to supplement loan financing. Banks are also encouraged to exercise responsibility in their marketing campaigns, in view of the risk of inviting members of the public to undertake levels of borrowing which are beyond their ability to repay.

In furtherance of the above, banks are advised, with immediate effect, to adopt the following guidelines:

- a) Limit the existing or resulting total debt service ratio (on the aggregate of personal loans, mortgages, rent, and property maintenance) to 40% - 45% of ordinary monthly income*.
- b) Require a minimum equity contribution** of 15% on all personal loans, with the exception of those secured with mortgage indemnity insurance.

*(*Ordinary monthly income is meant to be the sum of wages and gratuities, and guaranteed rental and investment income.)*

*(**For the purposes of determining the minimum equity contributions, dealer rebates on purchases, in cash or in kind, should not be counted. The required equity contribution should be calculated on the net price after such rebates.)*

In its prudential oversight of the system, the Central Bank will continue to closely monitor lending to households, loan repayment delinquencies and asset quality, and may impose additional credit inhibiting measures on individual financial institutions should circumstances so require.